Development of the OfS's approach to funding

Issue

1. This paper provides an update on the OfS's development of its approach to funding and sets out a timetable for implementation.

Recommendations

2. The board is invited to note:

    a. the current proposals and broad priorities for the funding review within each of the three themes of Course, Student and Provider.

    b. the proposed timescale for the review (implementation from 2022-23 for the main elements of the review of teaching funding and earlier for the review of specialist funding and Uni Connect) and delegate authority to the Chief Executive to agree the detail, process and timetable for consultation on each.

    c. the summary at Annex A of the position of OfS funding as part of its regulatory role and the analysis at Annex B of rates of resource (grant plus fees) for higher education.

3. Further information available from Nolan Smith, Director for Resources and Finance (nolan.smith@officeforstudents.org.uk, 0117 931 7376) or Toby West-Taylor, Head of Funding (toby.west-taylor@officeforstudents.org.uk, 0117 931 7286).

Background

4. The OfS's current approach to teaching funding has been an evolution of the Higher Education Funding Council for England's (HEFCE's) methodology; an approach that has been in operation since the introduction of the higher fee threshold of £9,000 in 2012-13. We have continued with a largely similar approach but consider it to be transitional as we explore the introduction of a new methodology that better reflects the interests of students, the OfS's strategy, and government priorities.

5. In July 2019 and September 2019, the board considered papers that set out the context for the OfS's approach to funding and the broad principles and framework that the OfS should adopt in reviewing it. **Annex A** to this paper provides, for information, a summary of how OfS funding plays a key role in our regulatory approach and in the achievement of our strategic objectives. We agreed a framework for our approach to recurrent funding that focuses on three key aspects of higher education delivery, or 'themes', listed in order of the amount of funding expected to be targeted towards each:

   - Courses: what is taught (including, as necessary, how it is taught – the mode of delivery).
   - Students: who is taught.
   - Provider: reflecting, exceptionally, where teaching takes place.

6. The OfS has committed in its business plan to a review of its approach to funding, reflecting its role as a regulator. The original intention was to introduce new funding principles and methodology from academic year (AY) 2021-22 onwards for the main recurrent teaching grant for providers and implement a review of institutional specific funding for specialist providers. However, the proposed timetable has been delayed by the need to wait for the government's response to the report of the independent panel chaired by Philip Augar for the post-18 education and funding review[1] and the outcomes of the spending review. These in turn have been delayed by events such as last year's general election and the coronavirus (COVID-19) pandemic. The outcome of these reviews provides the context for our own review especially in relation to the amount of overall funding available to us.

7. Alongside the main review and work on the specialist provider allocation, we have been working on options in relation to collaborative outreach currently conducted through Uni Connect which complements provider level regulation. In December 2018, the OfS board gave in principle support for £10 million per year to provide an infrastructure to support this. Our current substantive commitment to Uni Connect is to July 2021, which means we need to make decisions about this funding stream in early 2021 and therefore intend to bring a proposal to the board at that time.

The coronavirus (COVID-19) pandemic and the spending review

8. The coronavirus pandemic has caused significant disruption to progress with the funding review. We paused any non-time-critical new consultations and information requests, and the focus of our work has had to shift, for example in prioritising analysis of the financial position of individual providers. The pandemic has similarly affected the timing of the government's

[1] See: https://www.gov.uk/government/publications/post-18-review-of-education-and-funding-independent-panel-report.

spending review and thus its response to the Augar review. This means there remains uncertainty about the wider context of higher education finance arrangements and of government policy, albeit that we have continued to discuss the government's priorities with DfE. Arguably the pandemic has made funding more important including supporting vital skills that can only be met by funding (e.g. health and medicine). Government has promised additional resource to support additional students starting higher education this year.

9. The pandemic also raises questions about the short and longer term finance needs of the higher education sector, with concerns both about the potential loss of overseas fee income that subsidises many courses, as well as other income such as from residences and catering. Providers are putting in place new modes of delivery but there are particular challenges over ensuring safe delivery of teaching in, for example, clinical settings, laboratories and a wide variety of placements (sandwich years, learning in the workplace, study years abroad etc.) – the availability of such placements is in itself a challenge due to the pandemic and its effect on the economy. The review of digital teaching and learning will help us better understand all of this.

10. We are now supporting DfE in the preparation of evidence for its spending review submission. This includes analysis of the unit of resource for higher education, which is summarised for information at **Annex B**, and which updates analysis previously considered by the board in July 2019.[2] While there is no doubt that the effect of the coronavirus pandemic on the economy is likely to make this spending review challenging, demand for higher education may never be higher than over the coming years, with a 25 per cent increase in the UK population of 18-year olds projected between 2020 and 2030[3], all the more so if employment prospects are limited by an economic downturn. Our funding will play a vital part in helping to ensure there is a healthy higher education market that can meet the needs of all its various customers (students, employers and government), both now and for the future.

Additional funding for 2020-21

11. The re-grading of A-levels and other level 3 awards has resulted in an unexpectedly large intake of home students this year and for many of whom providers are likely to need to provide additional support. The government has recently committed £20 million[4] additional funding to support these extra students. This additional funding will be for the current year, with the funding amounts for later years dependent on the outcome of the spending review. The distribution of this additional funding for 2020-21 will require a consultation exercise which we intend to issue shortly, having regard to the guidance from DfE. We will look to minimise any additional burden in distributing this additional funding.

[2] See agenda item 6, at www.officeforstudents.org.uk/about/board-papers/ofs-board-meeting-3-july-2019/.

[3] Office for National Statistics projections published in October 2019 available from: www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/datasets/z1zippedpopulationprojectionsdatafilesuk; the principal projection is in the file uk_ppp_opendata2018.

[4] Letter from Minister 14 September 2020 confirming £10m recurrent and £10m capital funding.

Priorities within the new teaching funding framework

12. As set out in **Annex A**, we will consider our approach to funding in the context of our regulatory framework, with the aim of deploying funding to deliver outcomes that cannot be achieved through other provider- and sector-level interventions such as through the conditions of registration and publication of information to support informed student choice. We will ensure that funding and other regulatory interventions are mutually supportive, and evaluate our interventions rigorously so that we can understand and demonstrate their impact.

13. Clearly, how we progress the wider teaching funding review and how we look at specialist provider funding and determine the future funding for Uni Connect will be a challenge as we navigate the consequences of the coronavirus pandemic. While ideally we would want to consider all elements of our funding review simultaneously as part of a single coherent approach, that no longer appears possible, because of the urgency to review specialist provider funding and the approach to Uni Connect.

Funding priorities to support the Course theme

14. The funding review needs to cover a lot of ground, from high-level principles and priorities to more technical details about implementation. This means we intend to have two phases to the consultation, with the first phase focussing on the high-level principles. We expect the second phase to include changes to price groups, the volume measure and the data that is collected to inform funding.

15. There are a large number of existing funding allocations that essentially all recognise different aspects of course costs, with the main dimensions being:

    a. Cost variations for different types of activity, acknowledging the contribution towards costs expected from other sources such as course fees, or where other organisations have funding responsibility.

    b. Volume of activity (generally by counting student numbers).

16. We intend to reform our approach to funding for high-cost courses, condensing the various funding lines that support them and ensuring it is well targeted at priority high-cost subject areas, such as STEM and healthcare disciplines, so as to make the best use of public funding. We also recognise the importance of support for courses that meet specific labour market needs, and which support a significant part of the UK economy (even if, for some, such as creative industries, graduate salaries can typically be low). There is scope to target funding more than is currently the case, and to focus more explicitly on securing the diversity of high-quality provision that meets student and employer needs for example by establishing stronger incentives for part-time provision sought by mature students.

17. We intend to look at options to simplify the method of counting students for funding purposes that addresses the different ways in which providers teach students over time, reflecting variations in start dates for courses and how intensively students study. It may also have the desirable effect of reducing the barrier to student transfer between providers and better supporting flexible study patterns.

18. We have indicated publicly that we plan to consult on the development of our approach to regulating quality and standards and as part of this increasing our expectations for student

outcomes (including continuation and progression to professional employment or further study) – see paper 6.1 on the board's agenda. One aspect of our likely proposals is that a provider that breached one or more of our quality and standards conditions could be prevented from accessing student support funding or OfS public grant funding until that breach was remedied. This would mean that there could be significant financial consequences for a provider that continued to deliver unacceptably weak outcomes for students.

Funding to support the Student theme

19. Funding distributed through the 'students theme' is intended to deliver on OfS access and participation objectives to reduce gaps in outcomes across the student lifecycle which are not likely to be achieved through our regulation of access and participation plans alone.

20. The pressure we are able to apply to individual providers through their access and participation plans is critical to the reduction and eventual closure of the gaps in outcomes that their own students experience and should make a significant contribution to our goal to achieve equality of opportunity. However, provider regulation through the plans will not be sufficient on its own to meet all of our access and participation objectives. For example, structural gaps in non-continuation across the sector would persist even if all providers eliminated gaps across their own intake. Similarly, we need providers to collaborate with each other in two areas:

    a. Firstly, to ensure that the engagement with schools in local areas is efficient and targeted, does not place unnecessary burden on schools and ensures coverage across all parts of the country. This is delivered through the Uni Connect partnerships and they also provide a platform for partnerships progression between further and higher education, and between level 4/5 and level 6/postgraduate study, tailored to the specific populations of local areas. Through the review we are exploring how we can rationalise and re-focus our investment in Uni Connect to deliver these efficiency and progression goals, and how to do this in a way that supports the government's priorities for education and skills locally and nationally.

    b. Secondly, to enable the sharing of evaluation findings so that the investment in access and participation is focused on approaches that have been demonstrated to be successful. We have invested in the start-up of a national 'what works' centre for access and participation and through the funding review will explore the levels of funding needed in the future to ensure this becomes a sustainable service sector-wide.

21. Through our work within the students theme we are developing proposals which would see our funding used to support:

    a. Student success through a focus on those students most at risk of not continuing their studies and where provider activity to close their own gaps in non-continuation will not deliver equality of outcomes nationally. This would see the full-time and part-time Student Premiums targeted formulaically reflecting the characteristics of students who are most at risk of non-continuation.

    b. Approaches to delivering successful outcomes for disabled students, including students with mental health conditions. We expect to take a longer timeframe to determine our future approach to disability funding to allow for clarity around how DfE may change the Disabled Students Allowance and to allow our proposals to be shaped by advice from the Disabled Students Commission.

22. Within the wider funding model, we are developing proposals which would also support:

    a. Student success through maintaining a focus on part-time provision through the courses theme, particularly to meet the needs of mature students that require flexibility of higher education study. As our broader mature students strategy is implemented, this investment will ensure that providers continue to meet the needs of mature learners as they develop new forms of provision.

    b. Flexible resource, such as challenge competitions, to address any skills, equality, diversity or inclusion (EDI) or access and participation priorities, building on previous and ongoing programmes such as the Addressing Barriers to Student Success programme, the artificial intelligence and data science postgraduate conversion course programme, and funding to target mental health support for students.

Funding to support the Provider theme

23. We consider that specialist provider funding allocations cannot simply continue to roll forward based on the 2015 HEFCE criteria as they are limited to an historic subset of providers that does not properly align with the range of providers now registered in the Approved (fee cap) category.

24. The initial specialist provider funding allocations for 2020-21 were announced in the spring grant announcement on 13 May 2020: we rolled forward for a further year the allocations that providers received in 2019-20 (totalling £43 million across 16 providers), but explained that this was a transitional measure pending our review later this year.

25. There remains much scope for variation in our approach towards specialist providers. The ultimate objective may be to ensure we are able to allocate material sums that will make a real difference to eligible providers with a view to maintaining distinctive and diverse provision for the benefit of students and employers. Given the constraints to our budget, there will be a balance to be struck between prioritising towards a smaller group of providers, which will undoubtedly leave many others dissatisfied; and spreading funding too thinly such that it is insufficient to make the difference for any provider that we would want the funding to achieve. We will need to think carefully about eligibility criteria, which may include limiting eligibility to certain subject specialisms only. There could also be a view that there should be a regional dimension to supporting specialist providers. There is little doubt that many providers may have high expectations about the outcome of the review, some of which may not be met.

26. In the 2020 budget settlement, the government announced additional funding of £80 million over five years to support world-leading specialist providers.[5] This funding is being allocated through Research England and we are working closely with them to ensure future complementarity between our approaches towards specialist providers. This could involve establishing a common definition and list of specialist providers that meet initial eligibility criteria, but with further, separate teaching- and research-related criteria to enable prioritisation of funding through each organisation, reflecting our respective remits and budgets. We are also considering the extent to which such a joint funding approach could be implemented formulaically in order to minimise burden.

[5] See section 1.62, at: https://www.gov.uk/government/publications/budget-2020-documents/budget-2020.

27. The specialist provider review is intended to be completed so that it can inform funding from 2021-22. Our intention is to consult providers and other stakeholders on an approach during autumn 2020.

Indicative timelines for the funding review

28. In reviewing our funding method we are keen to reform our approach as soon as possible but cannot pre-judge the outcomes of the spending review or the post-18 education and funding review. This means that we unlikely to be able to consult on much of the technical detail of our approach – such as how much funding to provide for particular subjects or activities – until we have certainty about that wider financial and policy context. This will not be in time to inform funding for academic year 2021-22, because the time required to develop, model and consult on the detail of a new approach will not fit with our need to collect AY 2020-21 student data to inform AY 2021-22 funding allocations. Where possible we will look to make changes as early as possible, recognising we will need to consult before any implementation.

29. We are therefore now aiming to develop our main funding method so that changes are generally introduced from AY 2022-23, and have informed providers of this.[6] However we will keep this timetable under review to reflect the context of wider government developments and would note in particular that the effects of the coronavirus pandemic could well further delay and impact upon our review. While we have had some informal discussions with government and sector bodies as we look to develop our thinking on the new approach, we will be keen to consult widely.

30. Table 1 sets out an illustrative timetable for the overarching review of our funding method, albeit that this remains subject to change.

Table 1: Illustrative timetable for overarching funding review for implementation in 2022-23

Broad tasks	Key dates
Consultation on allocation of additional £20 million funding for FY 2020-21 to support increased student numbers.	September to November 2020
Consultation on approach to funding for specialist providers.	Autumn 2020
Government spending review and response to ‘Augar review’	Autumn 2020
Phase 1 Funding review consultation.	Late 2020 to March/April 2021
Decisions on distribution of £20 million additional funding for FY 2020-21 in light of consultation (HESES student data for 2020-21 signed off beginning February 2021)	December 2020 to February 2021
Decisions on approach to funding for specialist providers in light of consultation and next steps	January 2021

[6] See Annex A of Nolan Smith’s letter of 6 May to accountable officers of Approved (fee cap) providers on the implications of the coronavirus pandemic on OfS funding (www.officeforstudents.org.uk/publications/implications-of-the-coronavirus-pandemic-for-ofs-funding/).

Broad tasks	Key dates
OfS board agrees budgets for AY2021-22 in light of the grant settlement from government	March 2021
Recommendations to the board on wider ‘main’ funding review and new methodology.	July 2021
Phase 2 consultation on technical details	Autumn 2021
OfS board agrees budgets for AY2022-23 in light of the grant settlement from government	March 2022
Announce allocations to providers in spring 2022	May 2022

Recommendations

31. The board is recommended to note:

   a. the current proposals and broad priorities for the funding review within each of the three themes of Course, Student and Provider.

   b. the proposed timescale for the review (implementation from 2022-23 for the main elements of the review of teaching funding and earlier for the review of specialist funding and Uni Connect) and delegate authority to the Chief Executive to agree the detail, process and timetable for consultation on each.

   c. the summary at Annex A of the position of OfS funding as part of its regulatory role and the analysis at Annex B of rates of resource (grant plus fees) for higher education.

Risk implications

32. There are a number of risks concerning our funding review and its outcomes for providers. On process and timetable, it is clear that we will need to consult fully with stakeholders to reduce the risk of successful challenge, given the potential funding consequences for providers. Providers may consider that they have an expectation regarding certain types of funding, which may be reduced/removed or made subject to further conditions. Such changes may have an adverse financial effect on providers, and therefore a duty to consult as a matter of public law arises. As set out in this paper we are clear that we will consult widely.

33. The timing of the various aspects of our review could be affected by wider events, such as government decisions on its finance reviews and the progress of the coronavirus pandemic, as well as the outcomes of consultation itself. Progress could also be delayed by other urgent funding priorities, such as the new need to consult on the distribution of additional funding for FY 2020-21 as well as the normal funding cycle for academic year 2021-22.

34. There are risks for providers, and thus in turn for students, in the outcomes from our review, although this is in the context of how their wider financial position may be affected by, for

example, the coronavirus pandemic, the UK's withdrawal from the EU and providers' ability to recruit and retain students. Our review will inform how a fixed budget is distributed between providers, but cannot determine the overall sum available. In that regard, the outcome of the spending review will be very important in mitigating risks for providers both in the choice, opportunity and quality of experience that they are able to offer to students, and in the support that they can provide to the local, regional and national economy in recovering from the pandemic.

Communications and engagement

35. The proposed consultation stages for the different themes of the funding approach are set out in this paper. This entails engagement with students and providers and builds in time for a continuing dialogue with the government, as its funding priorities evolve. We also propose to publish Annexes A and B of this paper shortly after this meeting, as they provide useful background context for our funding review.

Annex A: OfS's funding in the context of its regulatory role

Introduction

1. The OfS has an annual budget of £1.4 billion to fund higher education providers registered in the Approved (fee cap) category. Our approach to distributing this funding so far has largely followed that developed by our predecessor, the Higher Education Funding Council for England (HEFCE) and can therefore be considered transitional. Over the coming year, we will be reviewing and consulting on our funding methods, having regard for the government's own review of post-18 education and funding and reflecting the outcomes of its forthcoming spending review.

2. Funding is not a responsibility commonly associated with a regulator. This annex therefore sets out how funding is one of the key parts of our regulatory role, supporting our strategic objectives and how we balance our various legal duties. It provides the context for our forthcoming funding review in setting out the purpose of our funding, what we are trying to achieve and some of the questions that we might be looking to address as part of our review.

The role of the OfS

3. The OfS is the independent regulator of higher education in England. We were established by the Higher Education and Research Act 2017 (HERA), which sets out our general duties and functions (further described below).[7] The OfS may make funding available to providers, or to any person, in respect of expenditure they have, or will, incur for the purposes of, or in connection with the provision of education by eligible higher education providers and certain institutions[8]. We are also subject to the public sector equality duty (further described below).[9]

4. Higher education is a mixed market in that it is a public service that is part-funded by the taxpayer, but also has private benefits for individuals (students). Finance for higher education teaching is provided through a variety of sources, the two main ones being:

    a. Course fees paid by students and others. For most UK and EU students, government loans, provided through the Student Loans Company (SLC), are available to help meet the upfront cost of course fees and living costs. These loans are repayable only once a former student is earning above a certain threshold and are written off after 30 years.

    b. Government grants to providers from the OfS and other public bodies, such as UK Research and Innovation (UKRI), the Education and Skills Funding Agency (ESFA) and the Department of Health and Social Care.

5. Government finance for higher education therefore comes through its subsidy of student loans as well as direct grants to providers and some grants or bursaries for certain categories of student. That government investment recognises that 'education would be underprovided if

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[7] See https://www.legislation.gov.uk/ukpga/2017/29/contents/enacted. Our general duties are set out in Section 2.

[8] See section 39 and 40 of the Higher Education and Research Act 2017.

[9] See section 149 of the Equality Act 2010: https://www.legislation.gov.uk/ukpga/2010/15/part/11/chapter/1.

left entirely to private markets; whilst a well-educated population increases the general welfare of the rest of society, this would not be taken into account by individuals when making consumption decisions.'[10] Essentially, the government investment in higher education seeks to secure a graduate workforce that will strengthen the health of the economy, society and individuals, and this applies not just to the government-employed workforce (for example in health or education), but across all industries that rely on graduate skills. It is for the government to determine the balance of finance for higher education that is to be met through student fees on the one hand and government grants or loan subsidies on the other, recognising the impact these decisions can have on students' decisions to study, the activity that providers may offer and the wider needs of society.

6. We regulate the higher education market in the interests of students, who, as consumers, are investing in their education as something of lasting value throughout their lives. Our primary aim is to ensure that English higher education is delivering positive outcomes for students – past, present and future. The funding we distribute is provided by government, who can be seen as a consumer investing to secure a graduate workforce for employers.

7. For providers, registration with us[11] secures access to government finance through the student loans system and, for those in the Approved (fee cap) category, access to grants from the OfS and Research England (subject to other eligibility criteria that each organisation may determine for different elements of funding). Registration with us is also required for providers wishing to recruit international students or to apply for degree awarding powers or university status from OfS.[12]

The OfS's duties

8. Section 2 of HERA sets out the OfS's 'general duties'. The general duties require the OfS, in performing its functions, to have regard to:

    a. The need to protect the institutional autonomy of English higher education providers.
    b. The need to promote quality, and greater choice[13] and opportunities for students, in the provision of higher education by English higher education providers.
    c. The need to encourage competition between English higher education providers in connection with the provision of higher education where that competition is in the interests

[10] 'Government in markets', Office for Fair Trading, 2009, available at https://www.gov.uk/government/publications/government-in-markets.

[11] Providers may apply to register with the OfS in one of two categories, each category enabling providers to do different things. All registered providers must meet regulatory requirements as a condition of their registration. The two registration categories are Approved and Approved (fee cap) – see www.officeforstudents.org.uk/advice-and-guidance/regulation/what-can-registered-providers-do/.

[12] See www.officeforstudents.org.uk/advice-and-guidance/regulation/what-can-registered-providers-do/.

[13] The reference … to choice in the provision of higher education by English higher education providers includes choice amongst a diverse range of—
(a) types of provider,
(b) higher education courses, and
(c) means by which they are provided (for example, full-time or part-time study, distance learning or accelerated courses).

of students and employers, while also having regard to the benefits for students and employers resulting from collaboration between such providers.

d. The need to promote value for money in the provision of higher education by English higher education providers.
e. The need to promote equality of opportunity in connection with access to and participation in higher education provided by English higher education providers.
f. The need to use the OfS's resources in an efficient, effective and economic way.
g. So far as relevant, the principles of best regulatory practice, including the principles that regulatory activities should be:
   i. Transparent, accountable, proportionate and consistent.
   ii. Targeted only at cases in which action is needed.

9. In carrying out our functions, we must also have regard to guidance given by the Secretary of State.[14]

10. The OfS is also subject to the public sector equality duty in section 149 of the Equality Act 2010.[15] This requires us, in the exercise of our functions, to have due regard to the need to:

    a. Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act.
    b. Advance equality of opportunity between persons who share a relevant protected characteristic[16] and persons who do not share it.
    c. Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

11. 'Having regard to' a particular duty does not prescribe what course of action we must follow in relation to a particular policy or issue, but rather requires that we give each of our duties due consideration when determining a course of action – essentially striking a balance between our various duties as we consider appropriate. In doing so, it is important to recognise the different consumer or stakeholder interests that can apply – between students as consumers of educational services on the one hand, and employers as 'consumers' of newly qualified graduates on the other (and whose interests are represented through the government's investment). Sometimes these interests may be closely aligned though sometimes not.

Regulating and influencing provider behaviour

12. We have a variety of mechanisms available to us through which we regulate higher education. These include:

    a. Through registration. In order to become registered, a provider must satisfy the initial conditions applicable to it in respect of the registration sought. Once registered, a provider's ongoing registration is subject to it satisfying the general ongoing registration conditions

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14 See section 2(3) of the Higher Education and Research Act 2017 - www.officeforstudents.org.uk/advice-and-guidance/regulation/guidance-from-government/.

15 See https://www.legislation.gov.uk/ukpga/2010/15/part/11/chapter/1.

16 These protected characteristics are: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, and sexual orientation.

applicable to it. Such requirements include, for example, that the quality and standards of the degrees being awarded by that provider are of a sufficient standard expected by the OfS (a requirement of what is known as the B conditions of registration). Other ongoing conditions may include ensuring that a provider has in place and adheres to an approved access and participation plan (a requirement of the A conditions). Where it appears to the OfS that a registered provider had breached one of its ongoing registration conditions, the OfS may:

i. Impose a monetary penalty under s.15 HERA.

ii. Suspend that provider's registration under s.16 HERA (including, specifically in relation to that provider's ability to charge its students at a level equivalent to the Approved Fee Cap).

iii. As a last resort, remove that provider from the register under s.18 HERA.

b. The provision of information. This includes information about providers and their relative performance, such as through Discover Uni,[17] the Teaching Excellence and Student Outcomes Framework (TEF)[18] and the National Student Survey (NSS),[19] but also more general communications about priorities and provider behaviours. The provision of information can affect providers' reputations and thus influence consumer (student) choice. It is an important part in the effective functioning of a market.

c. The provision of funding. This can provide the incentive, or remove the disincentive, for providers to offer particular types of activity, recognising costs that might otherwise not be met through course fees alone. Funding initiatives can also be effective in encouraging collaborations, where these are in the interests of students or prospective students. Our funding is subject to terms and conditions which supplement the conditions of registration for those in the Approved (fee cap) category.

13. All of these mechanisms can have financial consequences for a provider. We can choose which we use to address any particular issue, and they can be used singly or in combination – we do not need to use each mechanism for every issue, because they all contribute in different ways to achieving our overall strategic objectives and priorities.

14. Funding, therefore, is not a separate activity to regulation, but rather an integral part of how we regulate. It is one of the three broad regulatory tools (as set out above) that enable us to deliver our priorities and objectives and it can be particularly effective in:

a. Supporting student choice and diversity of provision. We cannot insist that a provider offers a particular subject through conditions of registration, nor can we convince it into doing so through the provision of information. But funding can provide the incentive, or remove the disincentive (arising from unmet cost), for providers to offer particular subjects or courses.

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[17] See https://discoveruni.gov.uk/.

[18] See www.officeforstudents.org.uk/advice-and-guidance/teaching/what-is-the-tef/.

[19] See www.officeforstudents.org.uk/advice-and-guidance/student-information-and-data/national-student-survey-nss/.

In this context, the aim of a funding 'intervention' may be to maintain provision, rather than necessarily effect change.

b. Promoting equality of opportunity. Access and participation plans are not compulsory and course fees alone may be insufficient to support reducing gaps in outcomes across the student lifecycle. OfS funding can be targeted to support those providers that recruit students from underrepresented groups who may need more support, complementing our other access and participation activities.

c. Supporting the student experience. Government provides funding to us to distribute to the sector, recognising that student fees alone are insufficient to meet the costs of some activities. This funding is be used to support the provision of teaching.

d. Encouraging competition, collaboration and innovation to address priority issues, such as through Challenge Competitions[20], Uni Connect[21] or, perhaps, capital project funding. Collaboration through Uni Connect partnerships recognises that activity to widen access is likely to be more efficient and respond more impartially to the needs of individuals, than when pursued by providers acting alone for their own recruitment purposes.

15. However, funding may not always be the most appropriate or the first regulatory tool to use to address a particular issue. For example, our view is that the use of conditions of registration is likely to be the appropriate mechanism to regulate quality and standards.

a. All providers on the OfS register have to meet minimum baseline requirements relating to quality and standards. If a provider does not meet those requirements, regulatory action can be taken in response to a breach or any increased risk of a breach.

b. The publication of information (such as through Discover Uni, TEF or the NSS) can help applicants make informed choices about where to study – all other things being equal, a provider that performs well against these various measures is likely to be more attractive to applicants, and benefit financially as a result.

16. The OfS's planned consultations on quality will consider whether and how we might draw the links between a provider's performance in relation to the quality and standards conditions and the financial benefits it receives through its registration.

17. Our funding for providers is informed significantly by evidence of the relative costs of different subjects and activities. If funding is constrained, however, we may need to prioritise further, for example to reflect government subject priorities in the Industrial Strategy[22], the Shortage Occupation List[23] or to support its own future workforce needs in the health and education

[20] See: www.officeforstudents.org.uk/advice-and-guidance/funding-for-providers/funding-competitions/.

[21] See: www.officeforstudents.org.uk/advice-and-guidance/promoting-equal-opportunities/uni-connect/.

[22] See: https://www.gov.uk/government/topical-events/the-uks-industrial-strategy.

[23] See: https://www.gov.uk/guidance/immigration-rules/immigration-rules-appendix-k-shortage-occupation-list.

sectors. Again, we would consider the possible effects of such prioritisation having regard to all our duties.

Accountability for funding

18. The main requirements we place on the providers that we fund are the conditions of registration that apply to those in the Approved (fee cap) category. Terms and conditions of funding are supplementary to these and relate primarily to:

    a. The uses to which providers may apply OfS funding. Some OfS funding is earmarked as being provided for specific purposes and must be used only for those purposes. This applies to some recurrent grants, capital funding, funds awarded through competitions (such as Uni Connect and OfS Challenge Competitions), and other grants that support national facilities and regulatory initiatives.

    b. The circumstances under which we may recalculate and adjust funding.

    c. A small number of requirements relating to specific grants, including eligibility criteria. For example, to be eligible for the nursing, midwifery and allied health supplement a provider must be actively recruiting new entrants to pre-registration courses for the professions that this funding aims to sustain.

19. In all of this, it is important to remember that the OfS does not directly fund students – that is the role of the Student Loans Company or, for apprenticeships, the Education and Skills Funding Agency (ESFA). Our role is to fund the educational activity and facilities of universities and colleges. But we are funding in the interests of students, as well as of wider society and the economy. Although we count students as a volume measure in our formula funding, this is only as a proxy for the activity of providers.

20. In general, providers have considerable freedom as to how they allocate OfS grants internally, as long as this is for the purposes eligible for funding and adheres to any terms and conditions that the OfS has attached to that funding. This is a strength of the system and important in two particular ways:

    a. It supports diversity in higher education (consistent with our duty in paragraph 8b.).
    b. It reduces the accountability burden on providers (consistent with our duty in paragraph 8g.).

21. There is no national curriculum in higher education.[24] This is a strength that has contributed to the success of UK higher education and is to be expected in a higher education market that is operating effectively. It increases student choice, ensures course content can respond quickly to the latest developments in research and industry, as well as local employer needs, and allows for innovation in course delivery. Parliament recognises the importance of this in the protections to academic freedom that are built into HERA, both in terms of limitations to the

[24] Some courses leading to qualification to practice in particular professions, such as healthcare, education and architecture, have requirements that providers must meet determined by the regulators of those professions.

Secretary of State's powers[25], and our own duty to have regard to the need to protect institutional autonomy.

22. To support such diversity, providers need scope to reflect their own priorities in their use of funding – to decide to invest more in some subjects or activities than others. It means that there are inevitably variations in costs not just between subjects, but also between providers within a broad subject area, reflecting different course content, means of delivery and staffing structures, as well as varying opportunities for providers to cross-subsidise between their activities and sources of income. We cannot assume that, because one provider is able to offer a subject at a particular (low) cost, then all providers should be able to do so, because that would be to disregard the diversity of provision and institutional investment priorities that are so important to a higher education market functioning effectively. Information on costs can, however, contribute to our understanding of the sustainability of providers or of areas of activity across the sector as a whole, as well as of the relative costs of different subjects.

23. There is, of course, another aspect to this. While OfS funding may make the difference that determines whether or not provision is sustainable, it is only a small part (commonly between 5 and 10 per cent) of the overall teaching income available to providers. While we could insist that funding allocated on the basis of student numbers in (say) physics is spent in physics departments, and introduce monitoring returns to ensure this happens, in practice this would add burden rather than provide assurance. Such monitoring returns would merely confirm that the cost of a physics department is significantly greater than the level of funding that OfS provides.

24. We are also constrained in the terms and conditions of funding that we can apply – these 'must not relate to the application of sums which are not derived from the OfS by the provider...'[26] This means setting targets to be met as a condition of funding may not be possible if achievement of those targets depends on expenditure of non-OfS income.

25. So what are we getting for the money we provide and how do we know when we have got it? It is the wrong question, because our funding is not separable from our other regulatory actions. For example:

    a. We cannot separate the impact of our funding to support student access and success from the impact of our work on providers' Access and Participation Plans: they are designed to work in complementary ways to achieve common goals.

    b. We cannot judge whether the higher education sector is producing enough newly qualified nurses for the future needs of the NHS solely by looking at the relatively modest contribution that OfS funding makes. It depends also on a large range of other supply and demand factors and interventions working together (and in the case of nursing, involving a number of different agencies and regulatory bodies).

26. The question may therefore be better framed in terms of how OfS regulation, in all its forms, enables the kind of higher education market that meets the needs of all its customers – one that provides choice and opportunity for all students, a high-quality experience and outcomes

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[25] See Sections 2, 74 and 77 of HERA, in relation to limitations on the guidance to the OfS, terms and conditions of funding and directions that the Secretary of State may determine.

[26] HERA, Section 41(3).

and the graduate workforce that employers and society need. The OfS funding method has an important part to play in this, in combination with all its other regulatory functions.

The OfS funding review

27. The OfS's funding method has to be developed in the context of the wider finance arrangements for higher education as a whole, recognising, for example, the balance of contributions expected to come through course fees and OfS grants, and equally the balance of funding responsibilities between the OfS and other public bodies such as the ESFA and the Department of Health and Social Care. The review will need to have regard to any guidance from government.

28. There remains continuing uncertainty about this wider context, pending the government's response to the report of the independent panel chaired by Philip Augar for the post-18 education and funding review[27] and the outcomes of the spending review. We cannot pre-judge the outcomes of these and this means that we cannot take forward much of the technical detail of our approach. We have also paused consultation while the current government measures to address the pandemic remain in force, but will want to consult widely on funding reform as soon as we can.

29. We are therefore now aiming to develop our funding method so that changes are generally introduced from academic year 2022-23, but we will keep this timetable under review to reflect the context of wider government developments. We also recognise that there may be some areas where earlier decisions may be required, to inform funding prior to academic year 2022-23. In particular, our decisions on the targeted allocation for world-leading specialist providers for academic year 2020-21 are a transitional measure, pending a review of this funding which we intend to undertake later this year.

30. Our review will consider afresh how our funding can complement our other regulatory activities to meet our strategic objectives. We are starting with a clean slate, not simply adapting the current method. How should our funding support courses in different subjects and which ones? How should funding support universities and colleges that do the most in reducing gaps in outcomes across the student lifecycle? Are there particular characteristics of some providers, such as specialists, that we should explicitly recognise in our allocations and on what basis? In each of these questions, there are high level principles to consider, as well as detailed technical questions about implementation, be that through formula-based methods or competitions.

31. What our review cannot do is determine the overall sum of money available to us – that will be for the government to decide through its spending review.

[27] See: https://www.gov.uk/government/publications/post-18-review-of-education-and-funding-independent-panel-report.

Annex B: Changes to the unit of resource for higher education in England

1. This annex provides analyses of changes over time to the unit of resource for higher education in England – that is, of the overall income per student to higher education providers through both government grants and students' course fees. It provides an update to analysis previously prepared for the OfS board for its meeting in July 2019.[28]

2. These analyses are made in part in response to analysis previously published by the Institute for Fiscal Studies (IFS)[29], some of which was included in the Independent panel report to the review of post-18 education and funding (Philip Augar report)[30], but they demonstrate a very different outcome for higher education providers. There are two separate analyses:

   a. The first calculates the unit of resource for home and EU students at higher education institutions previously funded by the Higher Education Funding Council for England (HEFCE) derived primarily from providers' finance and student data returns for the academic years 1994-95 to 2018-19, but also projected forward to 2023-24, based on providers' financial forecasts submitted to the Office for Students (OfS) during 2019-20. This provides an alternative perspective to that presented in Figure 3.1 of the Philip Augar report, which was drawn from Figure 5.1 of the IFS's 2018 report[31].

   b. The second calculates the unit of resource by price group[32] for HEFCE-fundable or OfS-fundable students at providers funded by HEFCE or OfS. This provides an alternative perspective to that presented in Figure 3.6 of the Philip Augar report, which was drawn from Table 4.1 of the IFS's 2017 report.

3. In addition, this annex includes a comparison of expenditure by higher education institutions previously funded by HEFCE against recurrent resource received. This is based on 2017-18 finance data at 2019-20 prices compared with 2019-20 OfS grants and fees.

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28 Annex B of agenda item 6, available at: www.officeforstudents.org.uk/about/board-papers/ofs-board-meeting-3-july-2019/.

29 'Higher Education funding in England: past, present and options for the future', Institute for Fiscal Studies, July 2017, available at: https://www.ifs.org.uk/publications/9334 ['the IFS's 2017 report'], '2018 Annual Report on Education Spending in England', Institute for Fiscal Studies, September 2018, available at: https://www.ifs.org.uk/publications/13306 ['the IFS's 2018 report'] and 2019 Annual Report on Education Spending in England', Institute for Fiscal Studies, September 2019, available at: https://www.ifs.org.uk/publications/14369 ['the IFS's 2019 report'].

30 www.gov.uk/government/publications/post-18-review-of-education-and-funding-independent-panel-report. Figures 3.1 (page 66) and 3.6 (page 71)

31 Figure 5.1 of the IFS's 2018 report re-presented Figure 4.1 of the IFS's 2017 report, but correcting for some errors in the latter, which had, in particular, omitted fees paid by the Local Education Authorities prior to 1998-99. It was the encouragement of 'fees-only' recruitment that fuelled higher education expansion in the late 1980s and early 1990s and drove down the unit of resource.

32 Price groups are grouping of academic subjects that show broadly similar costs for teaching. They are a categorisation used in HEFCE's funding method.

Comparing costs in real terms

4. To compare costs over time, it is necessary to adjust for increases that arise from inflation. There are many different measures of inflation, but it is common practice for government finance purposes to use the Gross Domestic Product (GDP) deflator[33] for this purpose. However, this analysis instead uses the Retail Prices Index All Items Excluding Mortgage Interest Repayments (RPIx). **Table B1** provides a comparison of the two measures for recent academic years.

5. Growth in GDP reflects both growth in the economy and price changes (inflation) and therefore can diverge from measures solely of price inflation at times when the economy is weak, but inflation is high (as Table B1 shows in the years immediately following the financial crisis of 2007-2008).[34] For this analysis, our concern is the resources available to higher education providers to support their teaching costs and therefore a measure of price inflation is appropriate[35]. RPIx is the government's measure (set out in legislation[36]) as the one that will maintain the value of regulated course fees in real terms.

Table B1: Comparison of inflation measures: multipliers to express cash figures in 2019-20 academic year prices

Academic year	GDP deflator[37]	RPIx[38]
2019-20	1.00	1.00
2018-17	1.02	1.02

[33] Information on the GDP deflator is available at: www.gov.uk/government/collections/gdp-deflators-at-market-prices-and-money-gdp.

[34] The disparity between inflation measures that reflect both growth of the economy and price changes on the one hand, and measures based solely on price changes on the other hand, is also evident in the impact of the coronavirus (COVID-19) pandemic. While the long-term effect is not yet known, UK GDP is estimated to have fallen by a record 20.4% in Quarter 2 (April to June) 2020 [source: https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterestimateuk/apriltojune2020], while consumer price inflation, as measured by the Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate to July 2020, remained positive [source: https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/july2020].

[35] The June 2015 report by the independent Student Funding Panel established by Universities UK, available at: www.universitiesuk.ac.uk/policy-and-analysis/reports/Documents/2015/student-funding-panel.pdf reported that the Higher Education Pay and Prices Index (HEPPI) previously produced by Universities UK showed that on average between 2000 and 2010, the increase in institutional non-pay related costs were 1.3 percentage points above the increase in RPIx.

[36] By The Student Fees (Inflation Index) Regulations 2006, SI 2006/507, available at: www.legislation.gov.uk/uksi/2006/507/made.

[37] The GDP deflator by academic year (August to July) has been estimated using ⅔ of the deflator for the financial year (April to March) and ⅓ of the deflator for the following financial year. Our analysis uses the GDP deflator by financial year published on 30 June 2020.

[38] In this analysis, RPIx by academic year up to 2019-20 has been calculated using the data and method described in Tables 51a and 51b of the consumer price inflation tables published by the Office for National Statistics at: www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation/current (release date 19 August 2020).

Academic year	GDP deflator[37]	RPIx[38]
2017-18	1.04	1.05
2016-17	1.06	1.09
2015-16	1.08	1.12
2014-15	1.10	1.14
2013-14	1.11	1.16
2012-13	1.13	1.19
2011-12	1.15	1.22
2010-11	1.17	1.28
2009-10	1.19	1.34
2008-09	1.21	1.39

Unit of resource for providers that were previously funded by HEFCE as higher education institutions 1994-95 to 2023-24

6. This analysis calculates the unit of resource for all Home and EU full-time equivalent students (FTEs) primarily using the finance and student data submissions made to the Higher Education Statistics Agency (HESA) for years up to 2018-19 by providers that were previously funded by HEFCE as higher education institutions, plus equivalent forecast data for the years 2019-20 to 2023-24 submitted and signed off by such providers in their annual financial return (AFR) submitted to the OfS.[39] The AFR was commonly submitted by providers in late 2019 and signed off in early January 2020 and this means, for example, that it does not take account of the effects of the coronavirus (COVID-19) pandemic or of the expected increase in student entrants in 2020-21 arising from the re-grading of A-levels and other level 3 qualifications in summer 2020. It will also commonly pre-date the cut to funding for financial year 2020-21 announced in January 2020.[40]

7. The main data sources for the academic years up to 2018-19 are:

   Income

   a. HESA Finance Record Tables 6b or 7: Funding body grants: Recurrent (Teaching) and a proportion attributable to teaching-related activities of Recurrent (Other). This excludes HEFCE recurrent grants for research and grants from the Skills Funding Agency for further education teaching, but includes teaching and other grants from HEFCE (including teaching-related non-formula funding), and grants from other funding bodies such as the Department for Education (DfE) or the National College for Teaching and Leadership (NCTL) and its predecessor bodies for teacher training; and from the devolved

[39] Information about data collected in the AFR is available at: www.officeforstudents.org.uk/publications/regulatory-advice-14-guidance-for-providers-for-the-annual-financial-return/.

[40] See: www.officeforstudents.org.uk/publications/consultation-on-implementing-savings-in-academic-years-2019-20-and-2020-21/.

administrations in Scotland, Wales and Northern Ireland for taught Open University students.

b. HESA Finance Record Tables 6 or 6a: HE Course fees for Home and EU domicile students. This includes fees for all modes (full-time and part-time) and levels (undergraduate, postgraduate taught and postgraduate research), irrespective of source of income. This includes fees paid by local education authorities, the Student Loans Company and NHS bursaries. It is necessary to include postgraduate research students in this so as to provide a consistent time series for the period from 1994-95 (fees for postgraduate students were not separated between teaching and research until the finance data return for academic year 2008-09).

c. Total capital grants for teaching notified to HEFCE in its government grant letters[41]. The finance returns are not suitable for this, because (for most of the period) they report the income that has been capitalised in a year, rather than the income received.

d. The analysis shows the gross unit of resource through grant and fees. It is important to note, however, that not all of this is available to support course costs at providers. In particular, expenditure on student bursaries and access measures, including those which providers committed through their access agreements with the former Office for Fair Access, is money that was not available to providers to spend on the delivery of teaching to students.

Student numbers

e. The unit of resource is calculated by dividing the income identified above by the total Home & EU student numbers across all modes and levels, taken from the HESA student record, irrespective of their funding source. This population is consistent with the course fee income that is counted.

8. The main data sources for the forecast academic years 2019-20 to 2023-24 are the AFR data submitted and signed off during academic year 2019-20:

Income

a. Table 4: Funding body grants: Office for Students teaching grant and other grants attributable to the Office for Students, plus grants from other funding bodies such as the Department for Education for teacher training; and from the devolved administrations in Scotland, Wales and Northern Ireland for taught Open University students.

b. Tables 6: Total UK and EU fees.

c. Total capital grants for teaching notified to OfS in its government grant letters[42] (consistent with the approach for the years up to 2018-19).

[41] Most of these are available from: https://webarchive.nationalarchives.gov.uk/20180405121813/http://www.hefce.ac.uk/funding/govletter/.

[42] Government guidance letters to the OfS are available from: www.officeforstudents.org.uk/advice-and-guidance/regulation/guidance-from-government/.

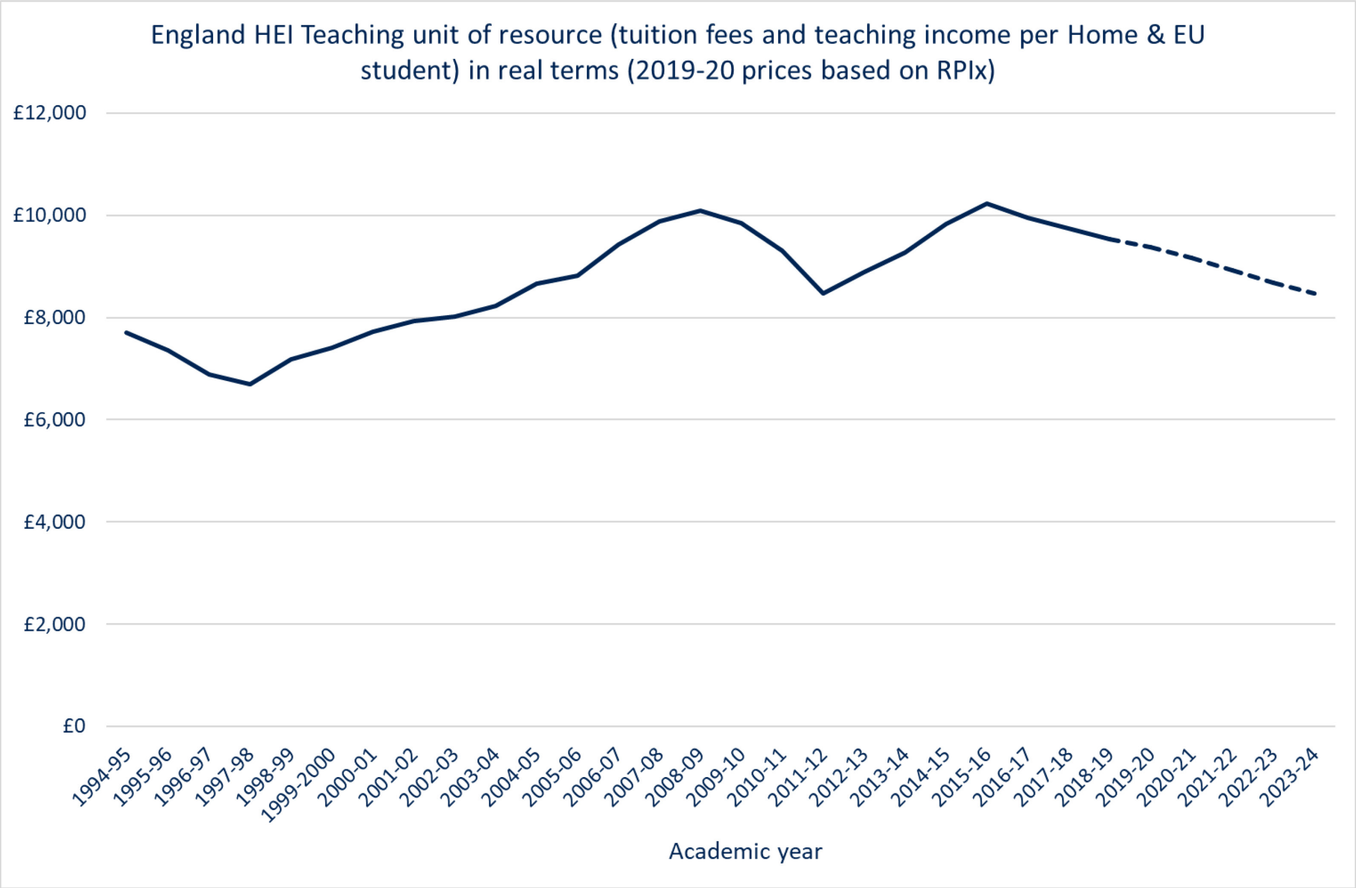
d. The analysis shows the gross unit of resource through grant and fees. It is important to note, however, that not all of this is available to support course costs at providers. In particular, expenditure on student bursaries and access measures, including those which providers commit through their Access and Participation Plans agreed with us, is money that is not available to providers to spend on the delivery of teaching to students.

Student numbers

e. The unit of resource is calculated by dividing the income identified above by the total Home & EU student numbers across all modes and levels, taken from the AFR Table 7: total UK and EU student FTE. This population is consistent with the course fee income that is counted.

9. **Figure B1** shows how this unit of resource has changed over time.

Figure B1: Unit of resource for Home & EU students at providers previously funded by HEFCE as higher education institutions



Commentary on the change to the unit of resource shown in Figure B1

10. The period covered by this analysis is limited by the availability of a consistent time series: 1994-95 was the first academic year of the HESA finance record. It is worth noting, however, that the period up to 1994-95 had seen very significant cuts to the unit of resource[43] and therefore the starting point of 1994-95 should not be interpreted as representing a desired or sustainable level.

11. The very significant cuts to the unit of resource began to be reversed as a result of measures taken following publication of the Dearing report in 1997, but the improvement was gradual. While regulated (fixed) course fees of £1,000 became payable by successive entry cohorts of full-time undergraduates from 1998-99, this in itself did not bring an immediate increase in income, because it was part of a re-balancing of finance between fees and HEFCE grant – indeed, HEFCE provided £198 million in 1998-99 to higher education providers to compensate them for changes in the level of fees received by institutions from LEAs and individual students in 1998-99[44].

12. There was a steeper increase in the unit of resource from 2006-07 as variable student course fees of up to £3,000 were introduced for full-time undergraduates and this came with a government pledge that the increased fee income would be additional (rather than balanced by a cut to HEFCE grant). The benefits of this extra fee income were phased in with successive entry cohorts, but these increases did not apply to postgraduate or part-time students (other than those on initial teacher training courses). This increase in the unit of resource was short-lived and had been lost entirely by 2011-12. Significant cuts were made to HEFCE grants between 2009-10 and 2011-12, including a £477 million cut to teaching capital grants[45] and

[43] See Figure 1.4 of the June 2015 report by the independent Student Funding Panel established by Universities UK, available at: www.universitiesuk.ac.uk/policy-and-analysis/reports/Documents/2015/student-funding-panel.pdf. The report explains that 'between 1989–90 and 1997–98, higher education institutions experienced a period of 'unsustainable growth' when the unit of resource declined by just over 30% in real terms. This trend reversed from 1999–2000 onwards with the introduction in England of private regulated fees and new capital grants for universities.' 'Higher Education in the learning society' (the Dearing Report) reported in 1997 that there had been a reduction to the unit of resource for higher education of over 40 per cent since 1976 (http://www.educationengland.org.uk/documents/dearing1997/dearing1997.html#17). Finally, the 2003 government White Paper 'The Future of Higher Education' (https://webarchive.nationalarchives.gov.uk/20031220224354/http://www.dfes.gov.uk/hegateway/hereform/index.cfm) reported that funding per student fell 36 per cent between 1989 and 1997.

[44] See 'Recurrent grants for 1998-99', HEFCE 09/98 (https://webarchive.nationalarchives.gov.uk/20081203022432/http://www.hefce.ac.uk/pubs/hefce/1998/98_09.htm).

[45] The grant letter to HEFCE of 22 December 2009 showed teaching capital funding for financial year 2009-10 of £572 million; the grant letter of 20 December 2010 showed teaching capital funding for financial year 2011-12 of £95 million.

repeated cuts to recurrent grants[46]. In addition, there was a peak in recruitment in 2011-12 as students sought to enter higher education before the higher regulated course fees of up to £9,000 were introduced from 2012-13. This increase in student numbers was a further factor in the cut to the unit of resource in 2011-12.

13. By 2011-12, the unit of resource was less in real-terms than the level that had applied for 2004-05 (the legislation introducing variable fees of up to £3,000 for full-time undergraduates was made in July 2004). The cut between 2008-09 and 2011-12 was approximately 16 per cent in real terms.

14. The unit of resource improved again as higher regulated course fees were introduced from 2012-13, but as before, this benefit was phased in with successive entry cohorts. It was not until 2015-16 that the unit of resource reached a local maximum, by which time the large majority of undergraduate students were subject to the 2012 fee regime. This finally restored the unit of resource to a level similar (slightly higher) in real terms to that for 2008-09.

15. Since 2015-16, the unit of resource has continued to decline. The regulated course fee limit has been increased for inflation in only one year (2017-18) since 2012-13[47], while there have been significant further cuts to HEFCE and OfS teaching grants[48]. The reduction to the unit of resource between 2015-16 and 2018-19 has been over 7 per cent.

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[46] Details of these cuts can be founded in:

- For 2009-10, HEFCE news item of 13 May 2009 (https://webarchive.nationalarchives.gov.uk/20120119010930/http://www.hefce.ac.uk/news/hefce/2009/budgetres.htm).
- For 2010-11, HEFCE Circular letter 02/2010 (https://webarchive.nationalarchives.gov.uk/20120118182840/http://www.hefce.ac.uk/pubs/circlets/2010/cl02_10/), with further cuts in HEFCE Circular letter 14/2010 (https://webarchive.nationalarchives.gov.uk/20120118175017/http://www.hefce.ac.uk/pubs/circlets/2010/cl14_10/) and further cuts in HEFCE Circular 05/2011 (https://webarchive.nationalarchives.gov.uk/20120118172436/http://www.hefce.ac.uk/pubs/circlets/2011/cl05_11/).
- For 2011-12, HEFCE Circular letter 05/2011 (https://webarchive.nationalarchives.gov.uk/20120118172436/http://www.hefce.ac.uk/pubs/circlets/2011/cl05_11/).

[47] A 20 per cent increase to the regulated fee limit for full-time and sandwich accelerated courses was introduced for student entrants from academic year 2019-20. Such courses account for only a very small percentage of the student population. The Student Loan Company reported that as at 31 October 2019 it had paid out accelerated degree fee loans on behalf of 400 students (see: https://www.gov.uk/government/statistics/student-support-for-higher-education-in-england-2019).

[48] The 2015 Spending Review and Autumn Statement announced a net reduction to teaching grant in cash terms of £120 million between 2015-16 and 2019-20 financial years (https://webarchive.nationalarchives.gov.uk/20160817152026/https://www.gov.uk/government/news/department-for-business-innovation-and-skills-settlement-at-the-spending-review-2015). This reduction was after consolidating a reduction of £150 million that was implemented for 2015-16 (https://webarchive.nationalarchives.gov.uk/20160106204415/http://www.hefce.ac.uk/news/newsarchive/2015/Name,104720,en.html). Within the reduced overall total, the settlement implemented a transfer of funding responsibility for certain courses in nursing, midwifery and allied health professions, which was expected to require an additional £80 million by 2019-20. [The actual cost of supporting these courses has significantly exceeded that expectation: the recurrent grant total allocated by OfS for courses that were subject to the transfer is over £96 million in 2020-21].

16. Figure B1 shows a projection for the unit of resource which is derived from the AFRs submitted to the OfS by providers during the 2019-20 academic year. It projects a continuing decline in the unit of resource during the coming spending review period, such that by 2023-24, the unit of resource will be very similar (0.1% lower) in real terms[49] to the level in 2011-12, before the regulated fee limit of £9,000 was introduced, and a year when the unit of resource was at a particularly low level as a result of significant cuts that had followed the financial crisis of 2007-08 (see paragraphs 12 and 13).

17. As noted in paragraph 6, the AFR submissions will commonly not take account of the effects of the coronavirus pandemic or the expected increase in student entrants in 2020-21 arising from the re-grading of A-levels and other level 3 qualifications in summer 2020. They will also commonly pre-date the cut to funding for financial year 2020-21 announced in January 2020. The forecasts assume an increase in home and EU student FTEs of a little under 7 per cent between 2019-20 and 2023-24. This may be an underestimate because of:

    a. The expected increase in entrants in 2020-21 following the re-grading of level 3 qualifications in summer 2020.

    b. The regional and national economic position following the coronavirus pandemic. Demand for higher education tends to increase in times of recession if alternative employment opportunities are more limited.

    c. The 25 per cent increase in the UK population of 18-year olds that is projected between 2020 and 2030, which may not be fully accounted for in providers' forecasts. [50] This is summarised in Table B2.

Table B2 Office for National Statistics (ONS) principal projection of the population of 18-year olds

Year	Population projection	Percentage increase from 2020
2020	715,212	
2021	729,516	2.0%
2022	753,013	5.3%
2023	768,727	7.5%
2024	801,257	12.0%
2025	819,927	14.6%
2026	849,599	18.8%
2027	846,154	18.3%
2028	857,933	20.0%

[49] For the forecast academic years 2020-21 to 2023-24, we have used internal analysis from the DfE, which has adjusted the March 2020 forecasts of RPIx made by the Office for Budgetary Responsibility (OBR) ['March 2020 Economic and fiscal outlook – supplementary economy tables', Table 1.7, available at: http://obr.uk/efo/economic-and-fiscal-outlook-march-2020/], so that the RPIx inflation figures reflect the post-Covid-19 scenarios published by the OBR at their July Fiscal Sustainability Report [RPI forecasts in Table 3.30 of 'July 2020 FSR – Charts and Tables: Chapter 3', available at: https://obr.uk/fsr/fiscal-sustainability-report-july-2020/]. This is possible because RPIx tracks RPI.

[50] Office for National Statistics projections published in October 2019 available from: www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/datasets/z1zippedpopulationprojectionsdatafilesuk; the principal projection is in the file 'uk_ppp_opendata2018'.

Year	Population projection	Percentage increase from 2020
2029	877,013	22.6%
2030	892,712	24.8%

18. Clearly the position for future years depends on the outcome of the forthcoming spending review, future decisions on regulated course fee limits and changes in student numbers. However, what is clear is that it will take a significant increase in the resources available to providers during the forthcoming spending review period (whether through course fees or grants) to arrest the continuing decline in the unit of resource.

19. This analysis shows a different picture to that presented in Figure 5.1 of the 2018 and 2019 IFS reports (Figure 3.1 of the Philip Augar report). The main reasons for differences between the two analyses are:

    a. The IFS analysis looks to calculate a unit of resource for all years of an undergraduate degree starting in a particular year. Our analysis calculates an average resource for all students studying in an academic year, reflecting providers' experience of how changes to higher education finance arrangements were phased in with successive entry cohorts.

    b. The IFS analysis is primarily concerned with resource for a full-time undergraduate degree supported through HEFCE or OfS grants and fees and therefore does not present the overall picture for providers, reflecting other funding sources (such as for students on teacher training programmes or supported through NHS bursaries) and postgraduate fees. We understand that it does not include all HEFCE and OfS teaching-related funding, most notably capital grants, which had been provided at a much higher level in the years immediately prior to 2011-12.

    c. The IFS has used the GDP deflator to express prices in real terms, rather than RPIx (the government's measure that will maintain the value of regulated course fees in real terms).

Unit of resource by price group for HEFCE- or OfS-funded students

20. The previous analysis has looked at the overall unit of resource in relation to all Home & EU students derived from the finance returns of providers that were previously funded by HEFCE as higher education institutions. However, that approach does not lend itself to understanding how the unit of resource has changed for different subject areas, because the finance data is not disaggregated in a way that allows it. A different approach is therefore needed.

21. This second piece of analysis calculates the unit of resource per FTE for selected years in respect of HEFCE-funded undergraduate students at both higher education institutions and further education and sixth-form colleges and for OfS-funded undergraduate students at providers registered in the Approved (fee cap) category. The years selected are:

    a. In respect of HEFCE funding: 2009-10, 2010-11, 2011-12 and 2016-17. The last year was chosen as representing a broadly 'steady-state' position following the introduction of higher fees in 2012-13; the first three years were chosen as points of comparison with the previous finance arrangements, so as to avoid comparing against a single unrepresentative year (as the previous analysis demonstrates, 2011-12 was a local minimum for the unit of resource, following substantial cuts to grants). These years also enable comparison against the analysis in Table 4.1 of the IFS's 2017 Report (Figure 3.6 of the Philip Augar report).

b. In respect of OfS funding: 2019-20. This is the most recent completed academic year and the first year that OfS funded providers under its 'own' powers provided in the Higher Education and Research Act 2017, rather than under the transitional powers largely inherited from HEFCE. It therefore reflects the inclusion for funding of providers previously referred to as 'alternative providers'.

22. Instead of using providers' finance returns, this analysis uses the grants announced for each year by HEFCE and OfS, together with the student numbers reported by providers for the same years in their individualised student returns to HESA and (by further education and sixth form colleges) on the Individualised Learner Record (ILR) for the years up to 2016-17 and in the Higher Education Students Early Statistics (HESES) survey submitted to the OfS for 2019-20.[51] This is a different population of students at a different group of providers[52] compared with our first analysis, and therefore some differences in calculation outcomes are to be expected, but the trend is in keeping with that observed in the previous analysis. The main data sources are:

<u>Income</u>

a. All HEFCE grants other than those attributable to research, and all OfS grants. This includes (in both cases) the small proportion of funding for knowledge exchange activities that is provided from teaching grant. Where necessary, grants have been prorated to relevant categories of taught (undergraduate and postgraduate) student FTEs, reflecting the activities that the grants may support, but only grants attributable to undergraduate FTEs have then been counted.

b. The analysis shows the gross unit of resource, with no adjustment for providers' expenditure on student bursaries and access measures, including that committed through their access agreements with the former Office for Fair Access or their Access and Participation plans with the OfS. As such, this will overstate the money that is available to providers to spend on the delivery of teaching to students.

c. Fee income per student for the years up to 2016-17 is taken from the previous analysis (that is, reflecting HEFCE-funded higher education institutions' fee income per Home & EU undergraduate student, for all modes of study). This includes fees for those not fundable by HEFCE, such as those funded through NHS bursaries. Because this fee information is taken from finance returns, it is not possible to calculate an average fee by price group. In

[51] www.officeforstudents.org.uk/publications/heses19/. The individualised HESA and ILR data for 2019-20 will not be available until later in the year.

[52] The main differences in population and providers is that this second analysis also includes further education and sixth form colleges for all years and also includes 'alternative providers' that became fundable by the OfS in 2019-20; but it excludes postgraduate students and other students not fundable by HEFCE or the OfS, such as those fundable by the NHS, DfE or the National College for Teaching and Leadership (and its predecessors) and non-exempt students aiming for an equivalent or lower qualification (ELQ). There may also be some differences arising from how and when students are counted for funding purposes (for this second analysis) compared with how their activity is reported by academic year in HESA and ILR returns (for the previous analysis); and from how providers have reported and categorised their grant income in their annual finance returns.

practice, the average fee for price group C2 is likely to be lower than the overall average, because price group C2 includes sandwich years out and modern languages[53]. This would imply a slightly higher average fee for other price groups.

d. Fee income per student for 2019-20 is derived from unpublished analysis by the OfS of the average net fee (that is, after fee waivers) charged by providers to full-time undergraduate student new entrants in 2018-19, as recorded in providers' individualised HESA and ILR data returns, or through linking those returns to Student Loans Company data. Because this analysis has considered only new entrants, it will not reflect the lower regulated fees chargeable to students taking a sandwich year out or an Erasmus or other study year abroad. It does, however, enable us to see how fee charging varies by price group. We have incorporated an uplift for inflation of 1 per cent to express these fees in 2019-20 prices, which is below RPIx. This is to reflect the limited scope that providers had to increase average fees in 2019-20. Apart from for a very small number of students on accelerated courses, regulated course fee limits were not increased in 2019-20 and our analysis shows that the large majority of students were already charged fees at the level of the regulated limit in 2018-19.

Student numbers

e. Student numbers are taken from HESA and ILR data (or, for 2019-20, HESES data) for the years for which funding is provided, using an FTE measure that counts all HEFCE- or OfS-fundable undergraduate students. This ensures consistency between the funding provided and the activity of students supported with that funding[54].

23. **Table B3** shows how the unit of resource for different price groups compares between 2016-17 and 2019-20 and for each of the three years immediately preceding the 2012 higher education finance changes.

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[53] Regulated fee caps for a sandwich year out are 20 per cent per head (40 per cent per FTE) of a standard full-time year; regulated fee caps for a full-time study year abroad (such as under the Erasmus+ programme) are 15 per cent of a standard full-time year.

[54] This differs from the student numbers used to calculate grants in two main ways: HEFCE funding allocations for the years considered had been informed by the student numbers reported by providers in the preceding academic year; and, for policy reasons, HEFCE chose not to count for funding purposes students who did not complete their year of study (see: https://webarchive.nationalarchives.gov.uk/20120119010921/http://www.hefce.ac.uk/news/hefce/2009/completion.htm).

Table B3: Unit of resource (£) by price group for HEFCE and OfS-funded taught undergraduates (real-terms at 2019-20 academic year prices using RPIx)

Price group		2019-20	2016-17	2011-12	2010-11	2009-10
A	HEFCE/OfS funding	£10,868	£11,937	£16,421	£18,776	£20,702
	Fees	£8,910	£8,907	£4,119	£4,119	£4,129
	Total	£19,778	£20,845	£20,540	£22,895	£24,831
	Change by 2016-17			1%	-9%	-16%
	Change by 2019-20		-5%	-4%	-14%	-20%
B	HEFCE/OfS funding	£2,138	£2,612	£6,785	£8,014	£9,121
	Fees	£8,912	£8,907	£4,119	£4,119	£4,129
	Total	£11,050	£11,519	£10,903	£12,133	£13,250
	Change by 2016-17			6%	-5%	-13%
	Change by 2019-20		-4%	1%	-9%	-17%
C1	HEFCE/OfS funding	£854	£1,241	£5,144	£6,182	£7,140
	Fees	£8,839	£8,907	£4,119	£4,119	£4,129
	Total	£9,693	£10,148	£9,262	£10,301	£11,270
	Change by 2016-17			10%	-1%	-10%
	Change by 2019-20		-4%	5%	-6%	-14%
C2	HEFCE/OfS funding	£597	£966	£5,144	£6,182	£7,140
	Fees	£8,687	£8,907	£4,119	£4,119	£4,129
	Total	£9,284	£9,873	£9,262	£10,301	£11,270
	Change by 2016-17			7%	-4%	-12%
	Change by 2019-20		-6%	0%	-10%	-18%
D	HEFCE/OfS funding	£597	£966	£3,867	£4,757	£5,639
	Fees	£8,748	£8,907	£4,119	£4,119	£4,129
	Total	£9,345	£9,873	£7,986	£8,876	£9,768
	Change by 2016-17			24%	11%	1%
	Change by 2019-20		-5%	17%	5%	-4%

Commentary on the change to the unit of resource by price group for HEFCE or OfS-funded undergraduates

24. The analysis shows the variation in outcomes for different subject groupings arising from the shift from HEFCE grants to student fees that was introduced in 2012-13. Any benefits from higher fees are skewed more towards lower cost subjects, because course fees provide a much greater proportion of overall income for them.

25. However, Table B3 shows much lower benefits than those presented in Table 4.1 of the IFS's 2017 Report (Figure 3.6 of the Philip Augar report). The main reasons for differences between the two analyses are:

   a. The IFS analysis includes only one element of HEFCE grant (the 'mainstream' funding, or, for 2016-17, funding for high-cost subjects). Our analysis includes other elements of recurrent and capital funding attributable to teaching activities. These other elements have also experienced substantial cuts.

   b. The IFS analysis assumes providers charge the maximum fee available for full-time undergraduates. Our analysis uses the average fee charged per Home and EU undergraduate entrant, reflecting where providers charge less than the 'higher amount' permitted by regulation and the availability of fee waivers.

   c. The IFS has used the GDP deflator to express prices in real terms, rather than RPIx (the government's measure that will maintain the value of regulated course fees in real terms).

Comparison of expenditure against income for providers previously funded by HEFCE as higher education institutions

26. Changes to the unit of resource over time do not, in themselves, tell us what the 'right' or sustainable level of resource per student should be, either overall or for particular subject groups. Data submitted to the transparent approach to costing (TRAC)[55] shows that publicly funded teaching has incurred increasing deficits since 2016-17, with the proportion of full economic costs recovered declining from 99.7 per cent in 2016-17 to 98.3 per cent in 2017-18 and 96.7 per cent in 2018-19.[56]

27. TRAC for teaching (TRAC(T)) data can be used to compare costs of different subjects against the resources available. The Department for Education has previously published analysis that does so by academic cost centre[57]. Figure 1 of that report showed that, on average, most cost

[55] TRAC is an activity-based costing system, introduced across the UK higher education sector in 1999 as a government accountability requirement and to support institutional management through better understanding of costs within providers. It is a process of taking institutional expenditure information from consolidated financial statements, adding a margin for sustainability and investment (MSI) to represent the full 'sustainable' cost of delivery, and then applying cost drivers to allocate these costs to academic departments and to specific activities. The MSI reflects that all businesses need to cover not just the cost of financing but to generate a minimum level of retained surplus for investment, whether that be in capital, innovation or human resources.

[56] www.officeforstudents.org.uk/data-and-analysis/trac-data/.

[57] 'Measuring the cost of provision using Transparent Approach to Costing data, available from: www.gov.uk/government/publications/post-18-review-of-education-and-funding-supporting-statistics. This is based on 2015-16 TRAC(T) data, but with teaching costs expressed in 2018-19 prices using RPIx as the measure of inflation (the government's measure that will maintain the value of regulated course fees in real terms).

centres were in deficit[58]. In fact, the position was slightly worse than the graph presented:

> 'In reality, the gap between the average cost of provision and funding per FTE [full-time equivalent] student is likely to be greater than shown in Figure 1. This is because the average fee per FTE figure used here (which is taken from the former Office for Fair Access (OFFA) data and relates to HEIs for 2018-19[59]) will to some extent overstate the average fee received for undergraduate students[60]. As a result, both the purple and black line are likely to be lower than as depicted meaning that the proportion of courses which are underfunded may be greater than Figure 1 suggests.'

28. **Figure B2** presents an update of the analysis previously published by the DfE. This is based on TRAC(T) data for 2017-18, expressed at 2019-20 prices (using RPIx) and compared against 2019-20 recurrent grants. The average fee shown is the same as is described in paragraph 22d [61] and the same caveat applies about it not reflecting lower regulated fees chargeable to students taking a sandwich year out or an Erasmus or other study year abroad. The comparison includes costs and income relating to allocations that are part of OfS recurrent teaching grants, but does not take account of other teaching-related costs, such as capital grants, teaching elements of Higher Education Innovation Funding and funding provided to support national facilities and regulatory initiatives.

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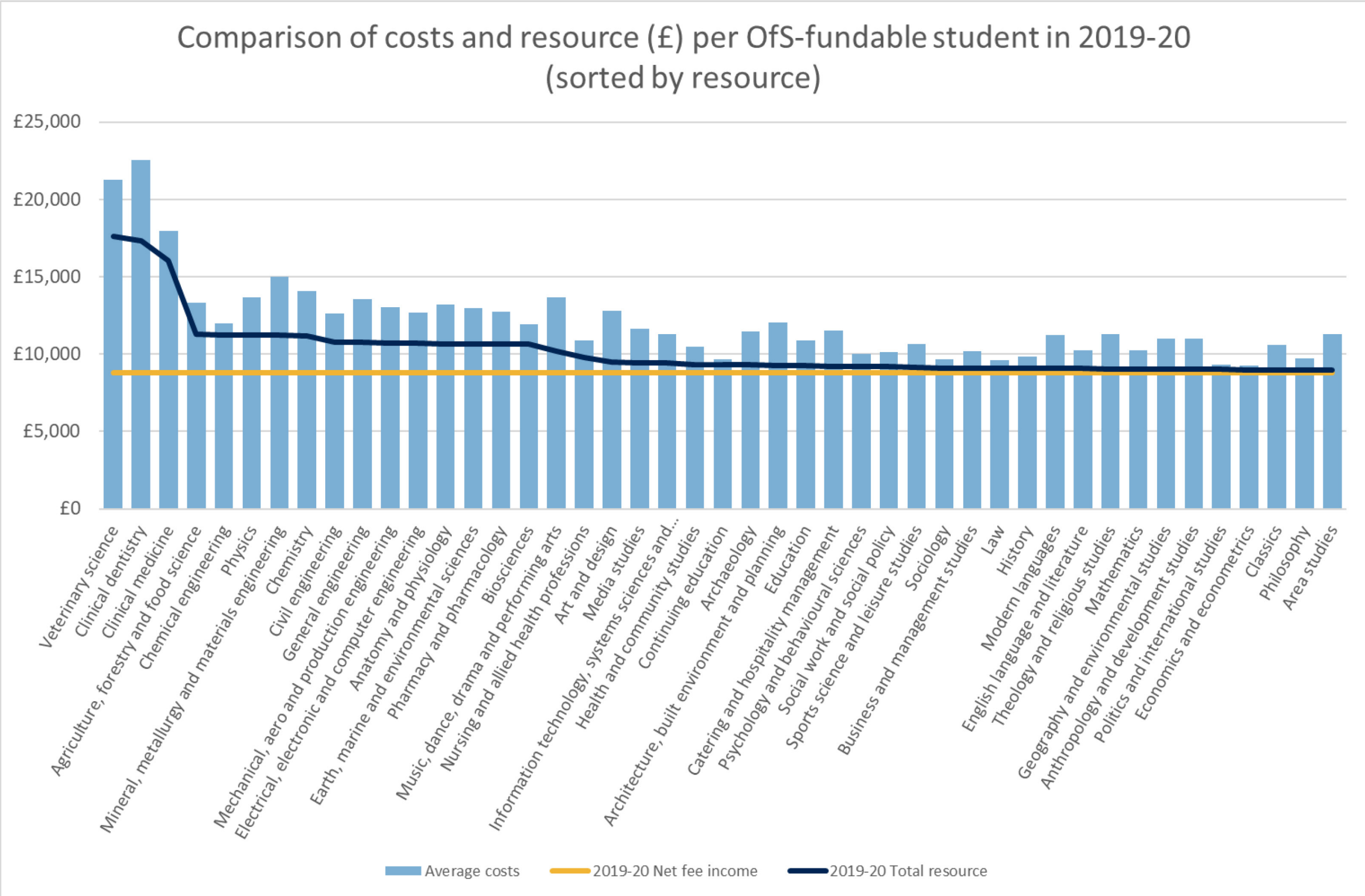
[58] The graph also reveals some of the hazards in comparing costs of ostensibly similar subjects at different providers. For example, the wide interquartile range in costs shown for veterinary science (the first column) reflects that this includes costs of providers that offer expensive clinical courses (training for veterinary surgeons), as well as providers that offer only less costly non-clinical courses (such as animal sciences or veterinary nursing).

[59] See Table 2 in *Access agreement 2018-19: key statistics and analysis (revised* published by OFFA. https://webarchive.nationalarchives.gov.uk/20180511111540/https://www.offa.org.uk/publications/analysis-data-and-progress-reports/).

[60] The average fee of £9,112 published by OFFA is likely to overstate the average fee for undergraduate (UG) and postgraduate taught (PGT) students that is comparable with the population for the underlying TRAC(T) and funding data because it doesn't taken into account: a) the (lower) fees for sandwich courses and Erasmus/study years abroad; b) possible variation in average fees per FTE for other undergraduate categories such as part-time and short final years of full-time study; and c) average fees for PGT which could be plausibly lower than average fees for UG FTEs.

[61] It should be noted that this is using average net fees for undergraduates, whereas the TRAC(T) data and OfS grants relate to both undergraduates and postgraduates. Our analysis of average fees has looked only at entrants in 2018-19. If we were to calculate an overall average for undergraduates and postgraduates combined from this data, it would give too much weight to postgraduate fees. This is because full-time postgraduates are commonly on courses of only one-year's duration, whereas full-time undergraduates commonly study for three or four years and therefore the total undergraduate population is much larger than our fees analysis has covered. In practice, the overall average net fees for undergraduates and postgraduates are similar, but postgraduate fees are higher in price groups A (clinical subjects) and D (primarily due to high fees in business and management and law) and lower in other price groups.

Figure B2: Estimated average full teaching cost for an OfS-funded FTE student in a subject area for 2019-20



29. **Table B4** provides a summary of this analysis by price group. [62] This is also based on 2017-18 TRAC(T) data, expressed at 2019-20 prices using RPIx and compared against 2019-20 recurrent grants. This shows all price groups in deficit, with the largest deficit being in price group C1, which particularly reflects the shortfalls in the cost centres for Music, Dance, Drama and Performing Arts and for Art and Design (as shown in Figure B2).

[62] The 2019-20 resource figures by price group differ between Tables B2 and B3 because:

- Table B2 calculates rates for all funded providers, while B3 is limited to those providers that submitted TRAC(T) data.
- Table B2 includes other teaching-related HEFCE grants, such as for capital, whereas Table B3 is limited just to those included as part of recurrent teaching grants to providers. In general, this means that the resource in Table B2 is higher than for B3. This is not the case for price group A and this arises because of some differences in how other teaching related grants which are not allocated by price group have been attributed to price groups.

Table B4: Estimated average full teaching cost for an OfS-funded FTE student by price group for 2019-20 (£s)

	A	B	C1	C2	D
2019-20 Fee income	8,910	8,912	8,839	8,687	8,748
2019-20 OfS T grant: high-cost subject funding	10,250	1,538	256	0	0
2019-20 OfS T grant: targeted allocations	823	510	554	387	293
2019-20 Total resource	19,983	10,960	9,649	9,074	9,041
Average costs	22,078	12,808	12,234	10,718	10,015
Difference	**-2,094**	**-1,848**	**-2,585**	**-1,644**	**-974**

30. While the overall position of there being deficits across all price groups is consistent with previous analysis, there can be some variation in outcomes from TRAC(T) analysis from year to year, reflecting changes in provision at providers and their approach to reporting costs. As we review our funding method, we will consider evidence of costs over a longer time period than a single year.